

LEGAL SERVICES CORPORATION

2005 – 2008

LSC PILOT

LOAN REPAYMENT ASSISTANCE PROGRAM

Participating Attorney Application Materials

Program Description



October 2005

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I. Overview

The Legal Services Corporation (LSC) is establishing a Pilot Loan Repayment Assistance Program (LRAP) to obtain the data necessary to determine the extent to which an LSC Pilot LRAP would help LSC grantees recruit and retain qualified attorney staff. The LSC Pilot LRAP will begin in 2005 and continue for three years, if funding remains available.

Program participants will be selected through a two-step process. In the first step, LSC will choose a limited number of Participating Grantee Programs (PGPs) from grantees that furnish application data demonstrating that they have experienced recruitment and/or retention problems. The PGPs will together constitute a representative example of grantees nationally; they will collectively contain geographic balance, be of varied size, be statewide and non-statewide, be rural and urban, and may engage in migrant and or Native American representation.

In the second step of the selection process, LSC will choose Participating Attorneys (PAs) from the pool of eligible applicants who are law school graduates a PGP is seeking to recruit and/or current PGP attorney staff with up to three years experience with LSC-funded programs.¹ Eligibility for the LSC Pilot LRAP is limited to attorneys or law graduates who have an outstanding annual debt service on eligible law school loans of at least \$2,400 and who meet the other requirements of the program.

PAs will receive annual LRAP grants up to \$5,000 depending on their annual debt service for eligible loans. LSC will make annual payments to the PA based on the annual amount of assistance for which the PA is eligible. The PA must use the LSC Pilot LRAP assistance to pay eligible educational loans, plus accrued interest. The PA also must commit to meet all terms and conditions of the LSC Pilot LRAP. The PA may continue in the LSC Pilot LRAP for the remainder of the program's duration as long as the PA remains eligible and funds are available. A PA will receive no more than \$5,000 per year. The LRAP debt will be forgiven by LSC at the end of each year. Applicants must commit to remain with the grantee for three years if they participate in the LSC Pilot LRAP.

A PA's participation in the LSC Pilot LRAP's first year is based on the initial application. To participate in the pilot's second and third years, a PA must submit information demonstrating continued eligibility for the program. If otherwise eligible, a PA will remain eligible in the second and third years even if the PA's salary exceeds the LSC Pilot LRAP income limit. However, the PA must recertify in the second and third years of participation that the PA is otherwise financially eligible for the LSC Pilot LRAP assistance. PA awards in the second and third years of the program are contingent upon funds being available.

All PGP and PA applicants, including those not receiving LSC Pilot LRAP assistance, must agree to participate in the evaluation of the LSC Pilot LRAP. Evaluation activities may include the completion of surveys and participation in interviews.

¹ LSC may be unable to provide LRAP assistance to all eligible persons in a PGP. If LSC is unable to provide LRAP assistance to all positions in a participating program, LSC reserves the right to choose among competing applications based on evaluation needs of this pilot project.

II. Program Rules for Participating Attorneys

A. Requirements for Participating Attorneys

Eligibility requirements for the 2005-2008 LSC Pilot LRAP include the following:

- A PA may have no more than three years (36 months) experience with the PGP that employs the PA at the time of application.
- A PA must be a full-time employee of the PGP (that is, work at least 35 hours per week or its equivalent per the PGP's pay period.)
- A PA must have outstanding annual debt service of at least \$2400 on eligible law school educational loans, as described in Section B. below.
- A PA may have a total annual income from all sources that is no more than \$45,000 and a total net worth of no more than \$35,000.²
- A PA is not required to first apply to and maximize participation in any other loan repayment assistance program for which the PA is eligible. However, LSC will seek information on the availability to the applicant of other LRAPs to help make future improvements to the LSC Pilot LRAP.
- A PA must apply for the LSC Pilot LRAP by completing an Application Form, submitting all other required documentation and certification forms, and, if accepted, by signing a Promissory Note.
- A PA must provide loan data according to the instructions in the Application Form.
- A PA must provide a statement of good standing from the PGP.
- If a PA receives LSC Pilot LRAP assistance, a PA must make a commitment to continue employment with the PGP for a period of 3 years.
- A PA must agree to participate in the LRAP evaluation. This is a pilot program designed to test the impact of an LRAP on the recruitment and retention of staff attorneys. By participating in this pilot program, a PA agrees to cooperate in the program's evaluation which may include interviews with LSC staff as well as completion of one or more surveys.

² Income sources include but are not limited to wages and salaries, interest, dividends, realized capital gains, gifts and trust income. Net worth consists of the sum of the value of financial assets (e.g. cash, value of checking and savings accounts, stocks, bonds) and non-financial assets (e.g., equity in real estate) minus any debts (e.g., mortgage loans, student loans, consumer credit). Equity in the home in which the PA lives is not included in the net worth calculation. For purposes of this pilot only, LSC is narrowly defining "household" to include only shared living arrangements consisting of a PA and spouse.

B. Eligible and Ineligible Loans

1. Eligible Loans

The LSC Pilot LRAP will provide assistance, as approved by LSC, toward the payment of the following loans incurred for law school expenses, on condition that they can be verified through a lending institution:

- Federal Stafford Loans (Subsidized/Unsubsidized)
- Supplemental Loans for Students (SLS)
- Federal Perkins Loans
- Law Access Loans (LAL)
- Law Student Loans (LSL)
- Law school-based loans
- Other educational (e.g., Nellie Mae, Sallie Mae, TERI) loans
- Bar exam/Bar study loans

2. Ineligible Loans

The LSC Pilot LRAP will not provide assistance toward payment of the following loans:

- Non-law school educational loans
- Non-educational loans
- Educational or non-educational loans from family members
- Educational or non-educational commingled loans with spouses or partners or parents
- Credit card debt loans

PAs are responsible for any tax or other legal consequences or legal implications if they use LSC Pilot LRAP funds to pay any of these ineligible loans or debts. In addition, the PA will be in default of the provisions of the Promissory Note and will be required to repay to the LSC the principal and interest pursuant to the terms of the Promissory Note.

C. Loan and Financial Information Required from PAs

To be eligible for LRAP assistance, attorneys or law graduates must have law school educational debt with an outstanding annual debt service on eligible educational loans of at least \$2,400 and meet the other requirements of the LSC Pilot LRAP. A PA will be required to certify to, and if requested, provide documentation demonstrating, for each loan, the specific total loan amount (including capitalized/accrued interest, if applicable), the period of repayment, the specific monthly payment amount based on that period, the interest rate upon which the monthly payment calculation is based, and the specific month, day and year that the first or next payment is due. A PA also will be required to provide the name and phone number for each lender. The PA Application Form and Instructions describes these requirements in detail. A PA must also certify compliance with the income and asset eligibility criteria.

A PA must notify the LSC LRAP Coordinator in writing of any errors, omissions or significant changes in the application information or other information provided LSC within 30 days of learning of such errors, omissions, or changes. If a determination is made that the PA has been overpaid, LSC at its discretion may require reimbursement for the overpayment during the course

of the year, make an adjustment at the end of the year or adjust the next annual payment if the PA continues in the program.

A change in the PA's financial eligibility during the loan assistance term will not affect any LSC Pilot LRAP assistance received that year. However, each year PAs must recertify compliance with the program's income and asset criteria. Any increases in the PA's PGP salary will be exempt from the program's income eligibility determination.

D. Use of the LSC Pilot LRAP Funds

All LSC Pilot LRAP funds received by PAs must be applied to eligible educational loan payments. LSC anticipates that some PAs' loans carry variable interest rates, and as a result of that or other factors, their actual monthly payments may fluctuate during the loan period. LSC is not obligated to alter the amount of its loan assistance.

LSC's loan payment is made in an annual check to PAs. Since law school loans are typically due in monthly installments, PAs are expected to retain the LSC loan payment and use the LSC funds to make their monthly payments on eligible law school loans. See Section B. 1 above. In the event that LSC's loan installment exceeds the PA's monthly payments in a particular year of the LSC Pilot LRAP, the PA will be required to apply that excess to the payment of her other eligible law school loan debt, as defined in Section B. 1 above. Under no circumstances may PAs use LSC's loan assistance funds to defray living expenses or any debt other than eligible law school loans.

PAs are required to notify the LSC LRAP Coordinator in writing within 30 days of paying off or paying down one or more of their loans such that their annual debt service on eligible loans falls below the amount of their annual LSC Pilot LRAP loan.

E. Calculation of Loan Eligibility and the LSC Pilot LRAP Assistance

LSC will use the following guidelines for calculating loan eligibility and determining the LSC Pilot LRAP assistance payment.

To determine whether the PA has an outstanding annual debt service of at least \$2400 on eligible law school loans, LSC will take the following steps:

- *Federal loans.* Based on federal loan information provided in the PA's application and after considering any applicable deferment or forbearance periods, LSC will calculate the total monthly payment amount of all federal loans that will be eligible for coverage under the LRAP, using a fixed repayment term of 15 years and the actual interest rate of each loan.³
- *Private loans (non-federal loans).* Based on private loan information provided in the PA's application and after considering any applicable deferment or forbearance periods, LSC will calculate the total monthly payment amount of all private loans that will be eligible for coverage under the LRAP, using a fixed repayment term of 15 years and the actual interest rate at the time of the LRAP application, not to exceed 9 percent.⁴

³ The 15-year term is used by a number of law school financial aid programs and lenders.

⁴ While the interest rate varies for private loans, a significant number have rates between 8 percent and 10 percent.

- LSC will add the federal loan total to the private loan total to determine the LRAP eligibility for the year.
- If selected, LSC will determine the amount of the LSC Pilot LRAP assistance payment by subtracting from the PA's law school loan indebtedness for the period October 1, 2005 through September 30, 2006, as determined under the procedures described above, the amount of any other LRAP payment that the PA will receive during this period.
- The LSC Pilot LRAP assistance payment shall not exceed \$5,000 annually.
- A copy of the LSC Pilot LRAP assistance payment calculation worksheet will be made available to the PA upon request.

F. Disbursement of the LSC Pilot LRAP Assistance

After completing an Application Form and other documents and after being selected by LSC to participate in the LSC Pilot LRAP, the PA will be asked to execute and return to LSC a Promissory Note. Upon receipt of these documents, the loan amount will then be disbursed directly to the PA in an annual payment. Payment will be mailed to the PA's *work* address. The first year's annual payment will cover the period October 1, 2005, through September 30, 2006. The employer (PGP) is not involved in this loan relationship, other than to verify that the PA remains in good standing in the participating grantee program.

The LSC Pilot LRAP is also designed to test the impact of an LRAP on the recruitment of attorneys. LSC will offer Pilot LRAP assistance to eligible attorneys hired by certain PGPs between October 15, 2005 and April 15, 2006. New attorney hires with these programs must apply for the LSC Pilot LRAP. If eligible, the newly hired PA's first LSC Pilot LRAP payment will cover the period beginning with the month of the newly hired PA's employment with the PGP and ending September 30, 2006. If funding is available and if newly hired PAs continue to be eligible for the LSC Pilot LRAP based on the PA's annual recertification, newly hired PAs will receive LSC Pilot LRAP assistance for a total of 36 months.

Interest on the LSC loan will accrue at the rate of six (6) percent per annum. This loan will be forgiven, along with the amount LSC paid out that year, upon the PA's completion of employment with the PGP that year. If the PA voluntarily quits employment for no compelling reason or is terminated with cause during the year, the entire amount of the loan plus interest for the current year will become due and owing.⁵

In the case of a PA who leaves the program for a compelling reason before the end of the year, LSC will cancel a portion of the indebtedness (total loan amount for that year plus interest accrued to date) corresponding to the proportion of the year the PA was employed by the PGP.⁶ The

⁵ A compelling reason could be illness of the PA or members of the PA's immediate family. Employment by another LSC grantee will not cause termination of the agreement as long as the PA remains otherwise eligible. LSC has the sole discretion to determine what is a "compelling reason."

⁶ For example, assume a PA is forced, because of a serious illness or death in the family, to leave the pilot program after 5 months. The PA began on October 1, 2005, and thus must leave as of March 1, 2006. This PA qualified for a \$4,000 loan for the first year of the LRAP. The PA received the payment on October 1, 2005. Since the PA would complete participation only through February, repayment to LSC would be required of the loan installment amount for March through September, plus accrued interest. LSC would forgive the loan payments made during the completion of the PA's participation in the LSC Pilot LRAP from October 1 through February 28.

entire remaining outstanding balance will become due and payable. Any remaining amount not offset or forgiven must be repaid promptly by the PA.

Disbursement of the loan payments by LSC is contingent upon the PA keeping law school loans in good repayment status and providing ongoing verification of the actual amounts due to lenders. On an annual basis, PAs must provide, for each loan, satisfactory documentation of the total amount remaining, the date the next monthly payment is due, and that the PA is in good repayment status.

Satisfactory documentation consists of one of the following three options, in order of LSC's preference:

- A copy of a quarterly statement or letter from each lender. Statements or letters should include the total debt owed as of that statement or letter, verification that the PA is in good repayment status, the date and amount of the last payment, and the date and amount of the next payment due.

OR

- Copies of monthly loan statements from the lender(s) for each loan. Statements should include total debt owed as of that statement or letter, verification that the PA is in good repayment status, the date and amount of the last payment, and the date and amount of the next payment due.

OR (ONLY IN CASES WHEN THE ABOVE IS UNAVAILABLE FROM THE LENDER AND THE PA HAS DOCUMENTED EFFORTS TO OBTAIN SUCH)

- Any other alternative information or documentation with the prior approval of LSC.

G. Renewal in the LSC Pilot LRAP In Year Two and Year Three

PAs who have completed their first year will be required to renew participation in the LSC Pilot LRAP for the second-year and third-year terms. They will be required to complete a Renewal Form, submit necessary certifications, and submit documentation of law school loans. See section C. above. The loan amount may change depending on the information submitted by PAs each year, or may be adjusted to reflect changes that occurred in the PA's eligibility status during the first-year or second-year term.

III. Program Rules for Participating Grantee Programs (PGPs)

The PGPs' obligations for the LSC Pilot LRAP include the following:

- PGPs must be supportive of the LRAP concept.
- PGPs must inform LSC that PA(s) will accept employment or is(are) employed by the grantee and is(are) in good standing with the PGP.
- PGPs must notify LSC if a PA leaves the grantee's employment for any reason.

- The PGP must be willing to participate in LSC's evaluation of the pilot program.

While not a criterion for participation in the LSC Pilot LRAP, LSC expects that selected PGPs will work to develop local, state, or regional LRAPs.

IV. Tax Consequences of Receiving LSC Pilot LRAP Assistance

The LSC Pilot LRAP is designed to take advantage of the provisions of section 108(f) of the Internal Revenue Code. In consultation with legal counsel, LSC believes it has structured the LSC Pilot LRAP so that the loan amounts forgiven by LSC when a PA completes each year of the pilot LRAP are not considered taxable income to the PA, and thus do not have to be reported as such. However, there is no authoritative legal guidance available to determine with certainty the proper tax treatment of these financial benefits. LSC does not give tax advice. Each PA remains responsible for federal and state income tax consequences on individual returns.

PAs have the option to treat the forgiveness of their pilot LRAP as taxable income. PAs are encouraged to seek independent legal advice for any questions about their particular tax situations.